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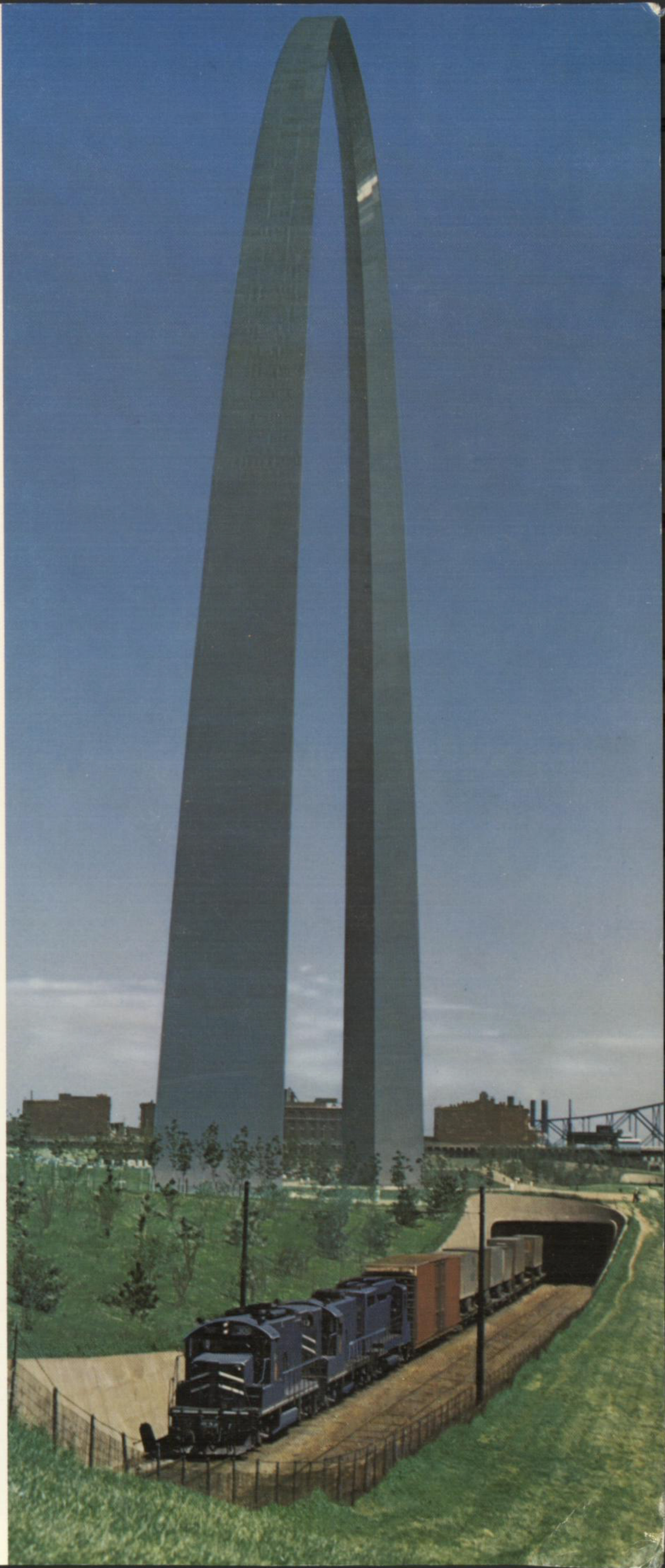
Missouri Pacific Railroad Annual Report 1973



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***††ROBERT H. CRAFT**
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President, S. M. Dixon Construction Co., Warren, Ark.

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Chairman of Executive Committee,
Dallas Federal Savings and Loan, Dallas

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Independent Oil Producer and Investments, Tulsa

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Vice President and General Counsel,
Missouri Pacific Railroad;
Vice President-Law, Texas and Pacific Railway,
St. Louis

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Chairman of the Board and President,
Mississippi River Corp.;
Chairman of the Board and Chief Executive Officer,
Missouri Pacific Railroad;
Chairman of the Board, Texas and Pacific Railway
and Chicago & Eastern Illinois Railroad, St. Louis

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Chairman and President, Commerce
Bancshares, Inc., Kansas City

***J. H. LLOYD**
President, Missouri Pacific Railroad,
Texas and Pacific Railway and
Chicago & Eastern Illinois Railroad, St. Louis

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Corporate Executive and
Director of Various Corporations, New York

T. H. O'LEARY
Executive Vice President, Mississippi River Corp.;
Vice President-Finance, Missouri Pacific Railroad,
St. Louis

J. T. SUGGS
Retired, Dallas

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Chairman of the Board and Chief Executive Officer,
Mallinckrodt Chemical Works, St. Louis

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†Finance Committee
**Chairman of Executive Committee
††Chairman of Finance Committee

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Chief Executive Officer,
St. Louis

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President, St. Louis

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St. Louis

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General Counsel, St. Louis

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St. Louis

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Vice President-Purchases
& Materials, St. Louis

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Controller, St. Louis

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Secretary and Treasurer,
St. Louis

MISSOURI PACIFIC RAILROAD COMPANY

Transfer Agents

$5 Cumulative Convertible Preferred Stock

UNITED STATES TRUST COMPANY OF NEW YORK
45 Wall Street
New York, N.Y. 10005

THE BOATMEN'S NATIONAL BANK OF ST. LOUIS
300 No. Broadway
St. Louis, Mo. 63102

Common Stock

THE BOATMEN'S NATIONAL BANK OF ST. LOUIS

Registrars

$5 Cumulative Convertible Preferred Stock

MANUFACTURERS HANOVER TRUST COMPANY
One Whitehall Street
New York, N.Y. 10015

ST. LOUIS UNION TRUST COMPANY
510 Locust Street
St. Louis, Mo. 63101

Common Stock

ST. LOUIS UNION TRUST COMPANY

Annual Meeting of Stockholders
The Second Tuesday in May
General Offices
Missouri Pacific Building
St. Louis, Mo. 63103

Missouri Pacific System Annual Report

for the year ended December 31, 1973

Consolidated Financial and Operating Highlights

Income and Expense Items:	**1973**	**1972**
Operating Revenues	**$753,582,000**	$642,919,000
Operating Expenses	**584,296,000**	508,284,000
Operating Ratio (Rail Line)	**75.7%**	77.1%
Income Available for Fixed Charges	**87,917,000**	69,577,000
Times Fixed Interest Earned	**3.1**	2.6
Net Income	**30,895,000**	16,630,000
Pro Forma Earnings per Common and Common Equivalent Share	**11.51**	6.11

See Page 20 for Information Relating to the Calculation of Earnings Per Share

Financial Position:		
Gross Capital Expenditures	**$ 59,388,000**	$100,279,000
Depreciation and Retirements Charged to Income	**41,577,000**	41,818,000
Working Capital	**(2,417,000)**	371,000
Long Term Debt	**704,282,000**	713,630,000

Freight Statistics:		
Miles of Railroad Operated	**11,726**	11,796
Revenue Ton Miles (1,000's)	**48,299,769**	38,793,579
Revenue Per Ton Mile (cents)	**1.42**	1.51

Employees:		
Total Amount of Payroll	**$317,394,000**	$280,865,000
Average Annual Wages	**13,795**	12,130
Average Number of Employees	**23,008**	23,154

To our stockholders

The past year, 1973, was a year of records for the Missouri Pacific System. It also was a year which found MoPac emerging with a new recapitalization plan which will have a profound and favorable influence on the future course of the company.

Records were established in such basic areas as net income, gross revenues, carloadings and revenue ton-miles. Net income rose 86 per cent from 1972 on a gain in revenues of 17 per cent. Carloadings rose 11.4 per cent while ton-miles of service performed, an even more significant and accurate measurement of performance, climbed 24.5 per cent. Once again, intermodal business was brisk and showed significant gains. We are confident that our performance for the year was well above that of the U.S. railroad industry as a whole and compared favorably with any other leading railroad system.

We have initially budgeted $75-million in 1974 for new freight cars and locomotives, a record sum for equipment additions. By the end of 1974 we will be approaching the $1-billion level in an improvement and modernization program initiated in 1961. This investment in both the present and the future of MoPac has been a key factor in the steady gains made during the past decade in a period which has found many railroads experiencing lower earnings, deficits and even bankruptcy. Continued heavy investment is a necessity if MoPac is to keep pace with the service needs of the rapidly growing territory which it serves.

Perhaps the most significant event of the year, and among the most notable achievements in MoPac history, was approval of a new plan for recapitalization which will end a 40-year period of dispute. From 1933 to 1956, the Missouri Pacific Railroad was in bankruptcy and reorganization. It emerged from reorganization with a stock structure which was to cause conflict between the two classes of stockholders and which would effectively bar MoPac from making substantial changes in its capital structure and from undertaking significant new ventures.

In October, 1972, the principals involved in the Class A and Class B stockholders' dispute reached agreement on a plan of recapitalization and thereafter proceeded to implement the agreement. The agreement and plan were approved by the U.S. District Court. Our stockholders gave it their overwhelming approval at a special meeting held in St. Louis on June 15, 1973. On December 14, the Interstate Commerce Commission approved issuance of the new securities. The agreement was consummated on January 21, 1974. The plan provided for an essential restructuring

of Missouri Pacific's capital stock and is considered fair and reasonable in that it both resolves a long-standing conflict between the different classes of stock and promotes the welfare of the company and its stockholders.

We view the coming year with optimism despite the perennial problems of low rate of return on investment and rising costs, as well as recent shortages of materials, especially diesel fuel. We anticipate losing business in some areas adversely affected by the energy crisis but to regain traffic previously lost to other modes which are not as efficient users of fuel as railroads are. We anticipate substantially heavier movements of coal as a result of increased reliance on this form of energy. There may be fewer large automobiles produced but more smaller autos with a greater percentage of total auto production moving by rail. Grain shipments are expected to continue to be heavy well into the year. We find no indications of reduced business activity in the petrochemical area, our single largest market.

The coming year should also be a year of peace between railroad management and the railroad unions as a result of contract settlements reached during 1973 well ahead of strike deadlines.

Fuel shortage is a problem currently plaguing the railroad industry. However, we believe we will be able to obtain the fuel required for our system and plan no curtailment in our operations.

The railroad industry filed for a 5 per cent general rate increase, effective February 22, 1974, in order to offset increased expenses. Assuming the increase is upheld by the Interstate Commerce Commission, we believe that revenues will increase on the Missouri Pacific System sufficiently to offset our higher operating costs.

Significant achievements have been made in virtually every area of Missouri Pacific System operations during 1973. A more detailed accounting and description of MoPac performance is provided in the following pages of this, our 1973 annual report to you, our stockholders.

D B Jenks

D. B. Jenks
Chairman of the Board
and Chief Executive Officer

February 21, 1974

Financial performance

The Missouri Pacific System established records for both net income and gross revenues in 1973.

Consolidated net income, on the basis of generally accepted accounting principles, totaled $30,895,000 in 1973, compared to $16,630,000 in 1972.

Consolidated operating revenues rose sharply in 1973 to $753,582,000 compared to $642,919,000 in 1972, an increase of $110,663,000.

Missouri Pacific System consolidated cash and temporary cash investments totaled $106,517,000 on December 31, 1973, compared to $55,027,000 on the same date one year ago. Cash was reduced on January 21, 1974 by payment of $33,771,000 to the Class B stockholders.

For the tenth consecutive year, all Class A stockholders received cash dividends totaling $5. Holders of Class B stock received a cash dividend of $20 per share in 1973.

C&EI Income Rises

Figures for the Missouri Pacific System include the accounts of the Chicago & Eastern Illinois System, a 75 per cent-owned subsidiary. The C&EI recorded consolidated net income of $4,777,000 on the basis of generally accepted accounting principles, compared to $3,527,000 in 1972. C&EI consolidated operating revenues totaled $47,142,000, a gain of $5,151,000 over the 1972 total of $41,991,000.

Recapitalization and stockholder litigation

On January 21, 1974, the Settlement Agreement dated December 18, 1972, in the suit brought in the U.S. District Court in New York City for additional dividend payments was consummated. As a result, the judgment of that Court, entered on May 2, 1973, became binding. This judgment dismissed, with prejudice as to all defendants, the lawsuit for additional dividends brought by representatives of the former Class B stockholders against the Company, Mississippi River Corporation (MRC) and certain of their directors.

Consummation of the Settlement Agreement involved the recapitalization of the Company and a tender offer by MRC for 400,000 shares of the Company's new Common Stock. After completion of the tender offer on January 21, 1974, MRC owned 1,158,395 shares (62.1%) of the Company's Preferred Stock and 400,000 shares (62.9%) of the Company's Common Stock.

The recapitalization was effected January 21, 1974, by an amendment to the Company's Articles of Association which changed and altered the Company's equity structure through the issuance of one share of $5 Cumulative Convertible Preferred Stock for each share of previously outstanding Class A stock and the issuance of 16 shares of Common Stock, plus $850 in cash, for each share of previously outstanding Class B stock. The recapitalization was previously approved by both classes of the Company's stockholders at a special meeting held on June 15, 1973, and the Interstate Commerce Commission authorized the issuance of the new stock on December 14, 1973. After giving effect to this recapitalization, the Company has outstanding 1,865,702 shares of new Preferred Stock and 635,696 shares of new Common Stock, both classes being without par value.

Each share of Preferred Stock is convertible, subject to certain dilution provisions, into one share of Common Stock on or after December 14, 1974, and is subject to redemption at the option of the Company on or after January 1, 1976, for $100 per share plus accrued dividends. The stated value and liquidating value is also $100 per share. The Preferred Stock is non-participating and is not entitled to pre-emptive rights.

The Common Stock has a stated value of $6.25 per share and is not entitled to pre-emptive rights. Of the 3,000,000 shares of Common Stock authorized: 635,696 shares are outstanding; 1,865,702 shares are reserved for conversion of Preferred Stock; and 498,602 shares are unissued and unreserved.

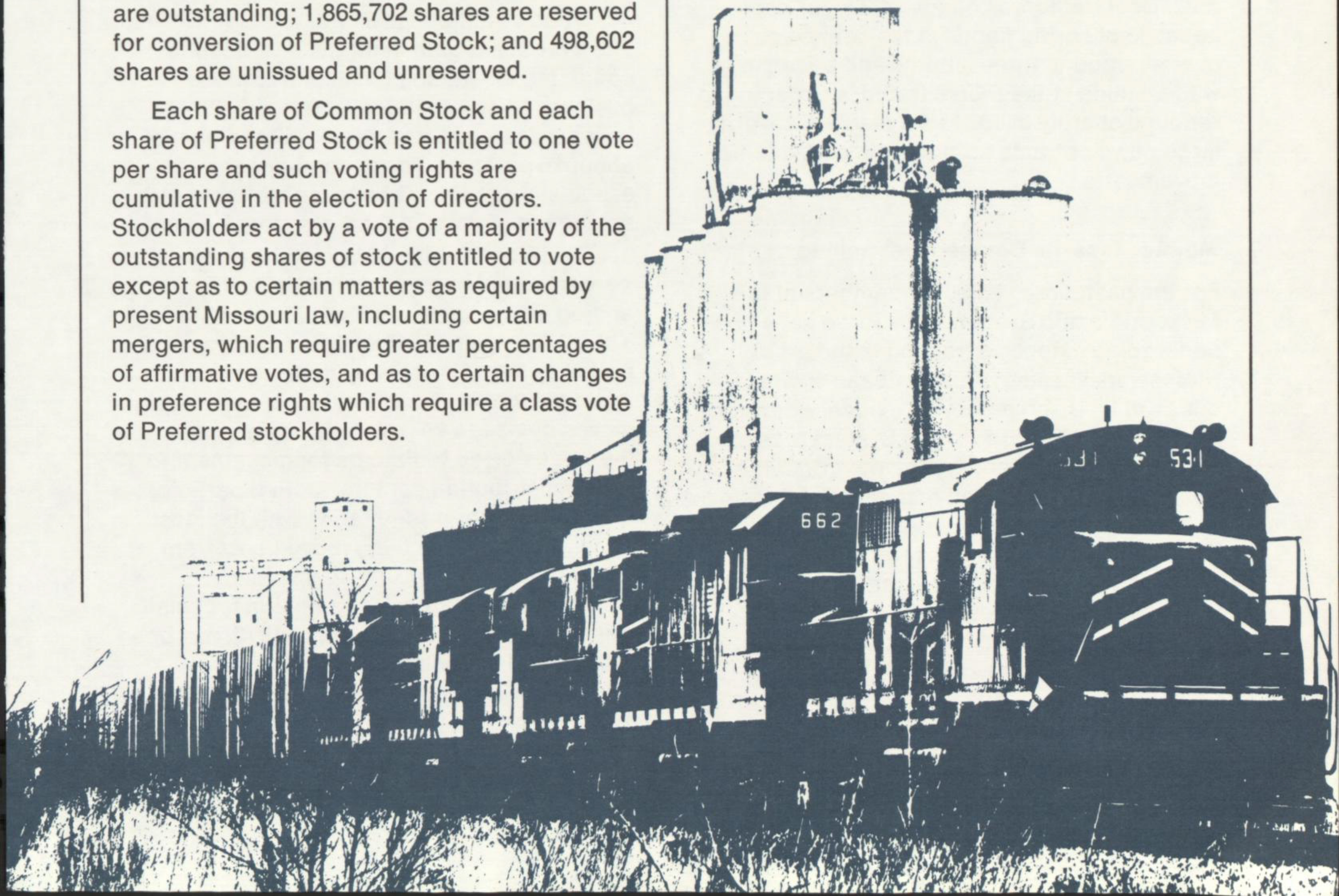
Each share of Common Stock and each share of Preferred Stock is entitled to one vote per share and such voting rights are cumulative in the election of directors. Stockholders act by a vote of a majority of the outstanding shares of stock entitled to vote except as to certain matters as required by present Missouri law, including certain mergers, which require greater percentages of affirmative votes, and as to certain changes in preference rights which require a class vote of Preferred stockholders.

Sales / Marketing / Service

Stimulated by immense movements of export grain, the Missouri Pacific System swept to new records of performance in virtually every statistical area of importance. Carloadings advanced 11.4 per cent while revenue ton-miles soared 24.5 per cent. Comparable figures for the U.S. railroad industry were gains of 4.7 per cent in carloadings and 9 per cent in revenue ton-miles. For the second straight year, the railroad industry established a record in volume of service performed.

Market Gains More Than Offset Declines

MoPac was among the major participants in the movement of export grain from inland terminal elevators to coastal port cities.



MoPac grain carloadings increased 98.6 per cent from 1972 while grain ton-miles advanced 134 per cent. This was comparable to moving the equivalent of nearly two years harvest in one year. MoPac and the other grain-carrying railroads encountered problems during the year such as car shortages and congested port elevators, but managed to move this heavy traffic efficiently enough under trying circumstances in a manner which elicited praise from many informed executives in the grain industry.

While grain accounted for about half the overall gain in MoPac carloadings, business also was brisk in other markets. Significant increases were noted in automobiles and automobile parts, chemicals, manufactured iron and steel, pipe and paper products. Declines were noted in forest products and coal. Coal traffic was off about 2.5 per cent because of spring floods in the coal fields over a period of three months and because of wildcat mine strikes. Coal traffic is expected to rebound sharply in 1974 as a result of several large new contracts for unit train and volume movements.

MoPac Tops in Competitive Selling

For the past three years, all members of the Missouri Pacific System sales force have been undergoing extensive training in the art of professional selling. This has been a wise outlay of time and money as evidenced by the fact that the Missouri Pacific System recorded a gain of 16.9 per cent in receipts from other railroads. MoPac ranked first among all major railroads in this area. Our nearest competitor had an increase of 8.4 per cent. This is significant because an increase in this type of traffic is largely the result of highly competitive selling on the part of the railroad showing the increase.

According to figures compiled by the Association of American Railroads, MoPac increased its share of the Southwest railroad transport market from 52.3 per cent to 54.4 per cent in 1973. Its share of the entire market area west of the Mississippi advanced from 21.3 per cent to 22.3 per cent.

By other means of comparison, the MoPac System ranked first among all Western railroads on the basis of percentage increase in revenues.

Intermodal Leadership Continues

The Missouri Pacific System, a perennial industry leader in intermodal traffic growth, continued to run ahead of the pack during the past year.

Piggyback trailer loadings, Plans I through V, which account for the great bulk of piggyback traffic, rose 31 per cent for the year. The overall net gain in piggyback, despite continued diversion of mail and express business to other modes, was nearly 20 per cent compared to a national railroad gain of about 16 per cent. These comparisons are especially significant because MoPac is also among the leaders in total piggyback volume.

Container traffic, though still a small percentage of overall intermodal traffic, scored an increase of 133 per cent in 1973. The outsize gains in container business are primarily a result of heavy movements of "mini-bridge" traffic whereby container freight moves by ocean vessel to a coastal port and is then transferred to flatcars for movement to inland distribution centers. MoPac participates in a host of mini-bridge tariffs with the most popular pattern involving movements from West Coast ports to Gulf Coast cities.

MoPac's "Scatback" campaign for small shipments, which began late in 1972, has been successful in winning back less-than-truckload/less-than-carload business. Not only was 1972's downward trend halted, but MoPac actually was able to record an increase in this type of business.

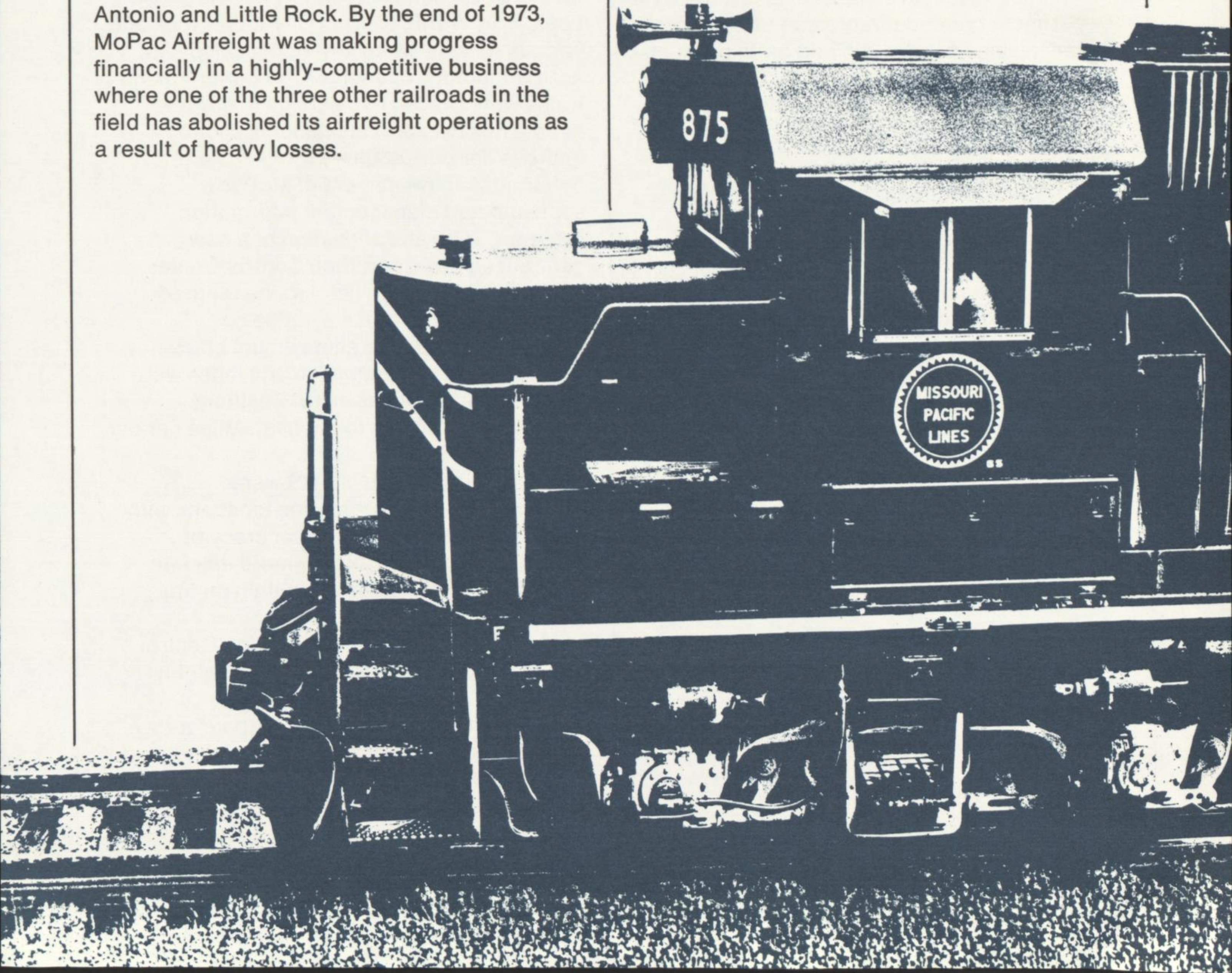
Missouri Pacific includes two wholly-owned trucking subsidiaries, Missouri Pacific Truck Lines and Texas & Pacific Motor Transport, which ordered 315 additional units of highway equipment during the year at a cost of $2,786,000. Continued progress was noted in the removal of key point limitations governing intercity movement of trucks.

Missouri Pacific Airfreight, an air forwarding subsidiary which began operations late in 1972, was serving 153 major U.S. airport cities from 10 on-line terminals by year's end: St. Louis, Kansas City, Omaha, Memphis, New Orleans, Dallas, Fort Worth, Houston, San Antonio and Little Rock. By the end of 1973, MoPac Airfreight was making progress financially in a highly-competitive business where one of the three other railroads in the field has abolished its airfreight operations as a result of heavy losses.

Industrial Development Produces New Business

During 1973, the Industrial Development Department helped locate 189 new or expanded industries along MoPac lines. Involved in these location projects was an estimated capital investment by industries of $463,075,000. Both figures were above those of 1972. It is estimated that the new firms will account for substantial freight revenues.

Some of the new firms were located in MoPac industrial parks at Austin, Texas; Wichita, Kansas and Springfield, Mo.



Marketing Produces Dollars

Marketing personnel engaged in a wide variety of productive projects aimed at improving MoPac's revenue position as well as supporting various national railroad programs.

Millions of dollars in new revenue can be traced to highly sophisticated and attractive volume rates developed by MoPac pricing experts. Areas where profitable activity was particularly brisk included grain, chemicals, aluminum, and steel plate.

Reacting to the increasing complexities of the marketplace and shippers' needs, the Rate Department created directors of pricing for chemicals and fuels, grain and grain products and piggyback/container traffic. These men will devote their full attention to development of further new pricing concepts for these key markets.

Among projects completed in support of industry programs were: a widely-quoted study of railroad fuel usage efficiency in comparison to other modes, cost data in support of the railroads' pending 5 per cent rate increase and a comprehensive statement on inland waterway user charges which was filed with the President's National Water Commission.

Marketing personnel also played a major role in development of a new car location computer system and in improvement of computer statistics for use in sales and marketing.

No Letup in Service Improvements

With profits at a record high and with our railroad carrying more traffic than ever before in history, the temptation might have been to ignore significant service improvements during the past year. Instead, increased effort was made to improve service, to handle the record traffic load of the present and to win and hold customers for the future.

New schedules were established on 10 key freight train runs between major on-line terminals including such routes as: St. Louis-Pueblo, Memphis-Fort Worth, Memphis-St. Louis, Chicago-Little Rock, St. Louis-Fort Worth, Kansas City-Little Rock and various runs between key Texas cities and northern points. In addition, 80-car grain unit trains were placed into service in order to handle heavy export movements and to improve car utilization.

Continued refinement of MoPac's sophisticated management information program, TCS, and activation of a new centralized Transportation Control Center played major roles in helping the railroad handle increased traffic by utilizing locomotives and cars at maximum efficiency.

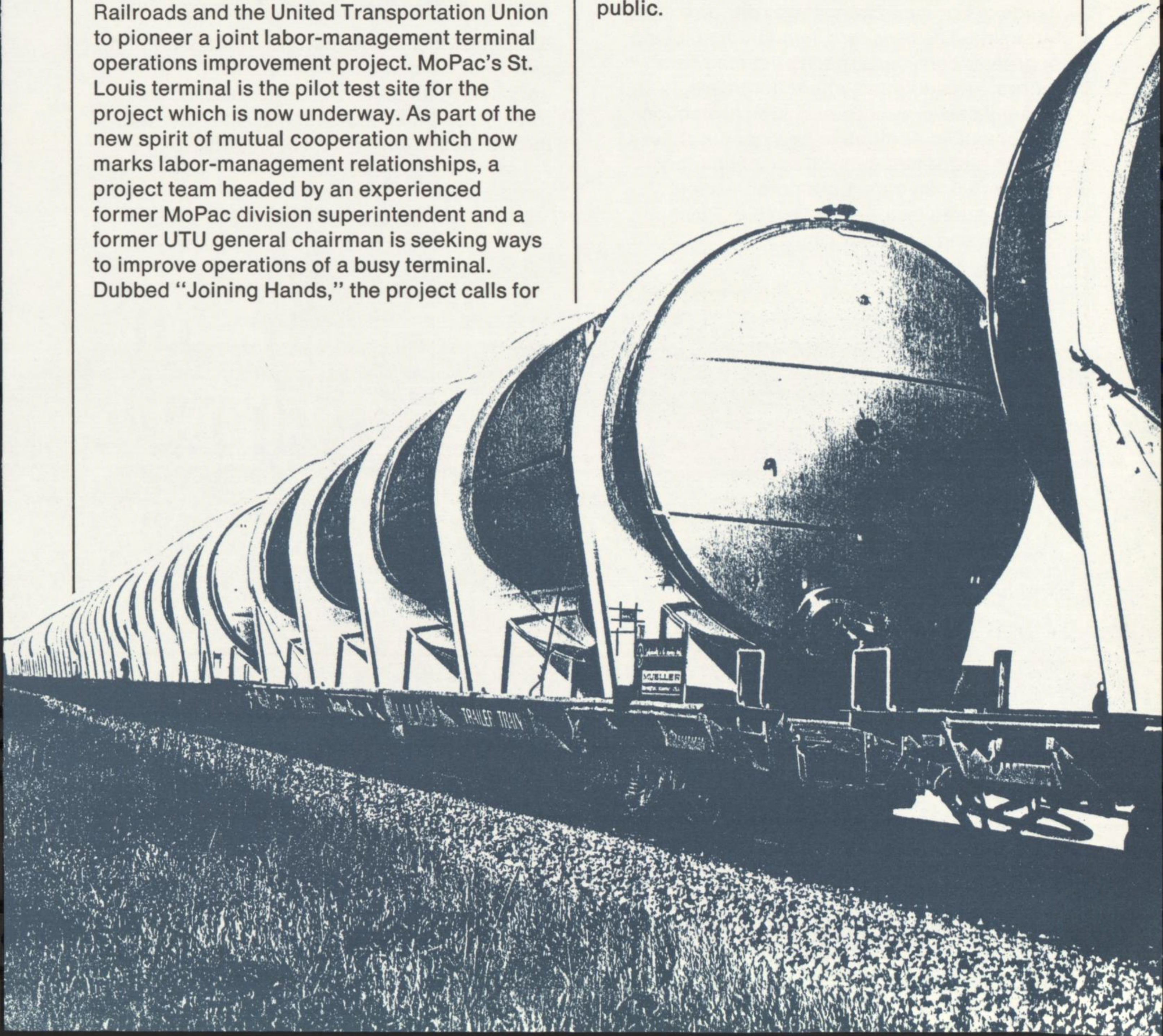
For example, locomotive unit miles were increased 4,970,000 over 1972 without substantial additions to the fleet. Miles per car day also increased.

Various segments of TCS were extended to numerous on-line locations with a resulting improvement in accuracy of records for shippers and far more efficient handling of cars, especially within on-line cities.

Activation of the Transportation Control Center in July provides MoPac with highly centralized direction of its entire transportation operation on a 24-hour-a-day basis. As a result, decisions not only are being made more quickly than ever before but are being made in a manner benefiting the railroad as a whole rather than individual segments of it. Center personnel also provide leadership in instituting new trains and in refining existing schedules.

New Labor-Management Cooperation

Late in the year the Missouri Pacific was selected by the U.S. Department of Transportation, the Association of American Railroads and the United Transportation Union to pioneer a joint labor-management terminal operations improvement project. MoPac's St. Louis terminal is the pilot test site for the project which is now underway. As part of the new spirit of mutual cooperation which now marks labor-management relationships, a project team headed by an experienced former MoPac division superintendent and a former UTU general chairman is seeking ways to improve operations of a busy terminal. Dubbed "Joining Hands," the project calls for both labor and management to set aside restrictive work rules temporarily to measure the effect on terminal performance. The outcome of this pilot project can be highly significant not only to terminal operations but also to future railroad operating methods and the development of even better understanding and cooperation between management and labor. The ultimate gainer will be the shipping public.



Modernization

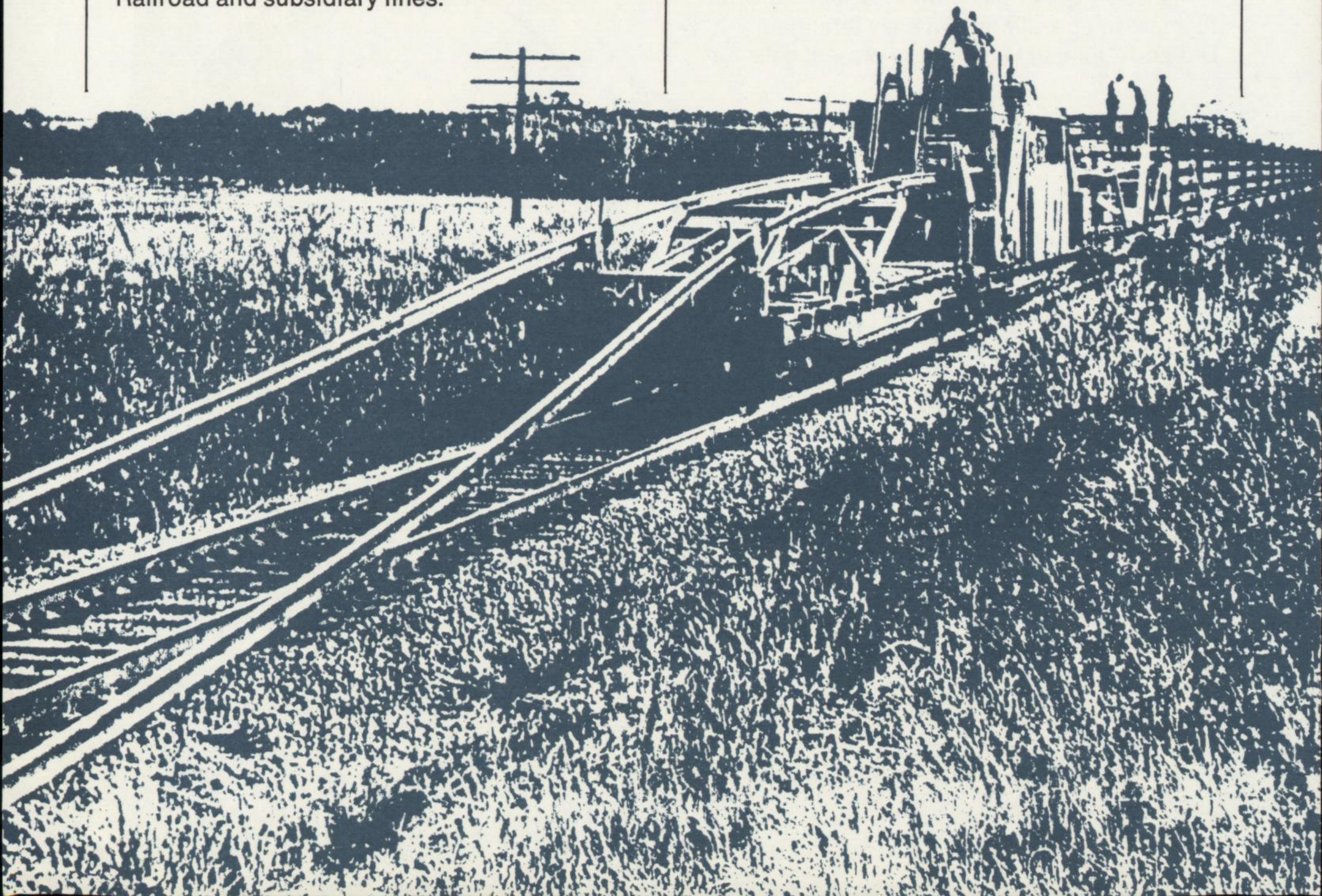
Modernization of Missouri Pacific properties continued at a high level as in 1972.

During 1973, MoPac added 2,785 freight cars and 74 diesel locomotives to its fleet which now stands at 1,020 locomotives and 59,000 freight cars. As in past years, all car purchases were carefully tailored to the stated needs of our customers and to our own market forecasts. The new cars, in addition to being of greater carrying capacity than the cars retired, are equipped with roller bearings and, in many cases, with special load protection equipment. In addition to new car purchases, MoPac performed general and secondary repairs to 6,186 cars. Both purchase and repair figures include the Missouri Pacific Railroad and subsidiary lines.

Late in 1973, MoPac announced the largest new equipment order in its history, an initial outlay of $75,000,000 for 60 diesel locomotives, 2,519 new freight cars and 60 cabooses. Delivery on this order has already started. The new additions will be of great benefit in meeting present and projected needs of our customers.

Ambitious Roadbed Program Carried Out

Recognizing that the railroad's efficiency and performance can be no better than the track upon which its service is performed, Missouri Pacific continued to make heavy investments in track and roadbed improvements.



During the year, MoPac laid 315 miles of rail, mostly continuous welded rail; inserted 1,000,000 crossties; applied 1,385,000 cubic yards of ballast and constructed 4,901 lineal feet of bridgework.

Sidings were extended at St. Peter, Kell and Goodwine, Ill.; at Mayflower and Bergman, Ark. and at Centerview, Mo. New sidings were constructed at Junland and Syracuse, Mo. and at Pine Bluff, Ark. Additional yard tracks were laid at Atchison, Kans.; Leeds, Mo.; Yard Center and Coaler, Ill. and at San Antonio and Angleton, Texas. The additional sidings and yard tracks provide more space for handling trains and contribute to improved scheduling and efficiency.

Improvements in signals and communications equipment were extensive. Major projects included installation of 65 miles of Centralized Traffic Control between St. Peter and Benton Junction and another 40 miles of CTC between Benton Junction and Gorham in Southern Illinois. In Arkansas, 87 miles of automatic block signals are being converted to the more modern CTC system between Bald Knob and Briark.

Shops Were Improved

Two major shop construction projects were completed in 1973 and two more started with completion scheduled in 1974. A new car and diesel repair and maintenance facility was completed at Coffeyville, Kans., a major division point. A new concrete products manufacturing plant was completed at North Little Rock where MoPac produces all the basic components used in its bridge and trestle construction projects. Underway at year's end was construction of a new light car repair shop at St. Louis and a roller bearing mounting and demounting shop at North Little Rock.

Intermodal Boom Spurs Construction

Expanding intermodal business creates a continuing demand for modern facilities necessary to handle this type of traffic with speed and efficiency. July marked completion of a major expansion project of our intermodal center in Dallas which included a new two-story dock office, extension of dock working space and the fencing of the total intermodal terminal handling area. A beginning also was made on a major project at New Orleans which will double in size the area available for handling trailers and containers. Expansion projects also were completed at Beaumont, Texas and Chicago. New, portable piggyback trailer and container handling equipment was installed at New Orleans and Houston to supplement our gantry cranes at those two key intermodal traffic points.

Shortages of gasoline have created increased demand for smaller automobiles, particularly imported makes. To meet this demand, as well as the marketing and distribution needs of domestic producers, MoPac has steadily been increasing its facilities for automobile transloading from multi-level rail cars to highway transports. In 1973, final work was completed on a major auto facility at Lee's Summit, Mo., and a new facility was constructed at St. Louis which will accommodate up to 650 automobiles.

Creating Better Working Environment

People work more efficiently in pleasant surroundings. Recognizing the importance of environment, MoPac has been upgrading office facilities throughout its system for several years. Late in the year, work was completed on construction of an ultra-modern office building in North Little Rock which will house headquarters personnel from the Eastern District as well as a Centralized Traffic Control center. Our freight terminal building at Dallas has been totally renovated, enabling us to move all executive personnel formerly occupying expensive space in downtown Dallas to the modernized structure. The continuing program of renovating floors in the MoPac headquarters building in St. Louis progressed during 1973. The entire 22-story structure is being modernized. New office buildings were constructed at Leeds, Mo., Salem, Ill., Avondale, La., Coffeyville, Kans. and Conway, Ark.

People

The primary purpose of an annual report to stockholders is to give an accounting of the investment a stockholder has in a company, a recap of financial results, a summary of business activity and a count of physical additions. But a company also is people. In the final analysis it is the people who account for the success or failure of any enterprise. At MoPac, it is 23,000 people on whom we depend for success. The successes we report upon this year can be credited, in large part, to our people.

Education Gets High Priority

Encouragement to employees to further their education and experience enjoys a high priority in our personnel planning. During 1973, more than 375 men and women from MoPac pursued higher education under the company's tuition aid program whereby the company pays half the tuition for the employee taking any course of his choice aimed at improving his chances for advancement. In addition, three employees were granted Missouri Pacific Fellowships for full-time, paid study, at a college or university of their choice. As in previous years, MoPac officers attended Harvard Business School.

Recruiters were active on college campuses in 1973, searching out those men and women best qualified to join MoPac in responsible positions in the management development program and various professional areas on the railroad. During the year, more than 1,000 graduates were interviewed and 94 employed.

In-House Education Pursued

The Sales Department conducted a third full year of special training for all sales personnel and initiated a management by objectives program which provides each employee an opportunity to establish personal professional goals and to be measured on the basis of success in attaining these goals. As part of the firemen manning agreement a special school was established in North Little Rock to train young men for promotion to locomotive engineer.

Our Video Training section completed 37 productions totalling 789 minutes of program time during 1973. These films are used for training of new operating employees, for teaching operating rules and safety, for employee orientation, computer programming instruction, for public relations efforts in the community, and a variety of other purposes.

TCS: Wave of the future

Computer technology has affected the daily operations of every department on the Missouri Pacific System. But the most far-reaching of them all, in size, complexity and impact, is MoPac's Transportation Control System (TCS). The basic objectives of TCS are:

- Computer generated schedules for each individual car moving on the MoPac System.
- Establishment of performance norms for every possible route.
- Centralized monitoring of car and train movements to insure compliance with performance norms.
- Continuous inventory of all cars on the railroad or at customer points for efficient distribution of cars, loaded or empty.
- Establishment of Customer Service Centers where a shipper can handle all normal business requests with one telephone call.

TCS consists of six basic phases or steps with a good deal of overlap among the phases. Using the building block approach, each segment of each phase is first tested at one location then gradually extended throughout the system. As a result, MoPac and its customers already are receiving benefits rather than waiting until the whole complex system is completed.

During 1973, the basic push was in establishing implementation programs for Phases 3 and 4 of TCS while refining and expanding the system's basic communications machinery. Phase 3 calls for creation of computerized production of waybills — the document that accompanies each shipment —as well as installation of small computers at key on-line terminals. Phase 4 involves the generation of train work orders by computer and automatic assignment of empty cars.

TCS, to be completed and in full operation by 1976, will provide MoPac with a degree of control over its operations unmatched in the railroad industry. The end result will be far better service to the customer.

Missouri Pacific System

Consolidated Balance Sh

Assets

	Dec. 31, 1973	Dec. 31, 1972
Current Assets:		
Cash	**$ 17,192**	$ 22,985
Temporary Cash Investments, at cost which approximates market	**89,325**	32,042
Deposits for Interest, Dividends and Equipment Acquisition	**3,807**	16,451
Accounts Receivable	**61,854**	51,759
Material and Supplies, at average cost	**18,046**	18,235
Accumulated Deferred Federal Income Tax Benefits (Note 3)	**13,000**	11,100
Other Current Assets	**1,282**	1,574
	204,506	154,146
Properties: (Note 1)		
Road	**894,837**	884,101
Equipment	**861,757**	873,179
Miscellaneous	**34,914**	36,046
	1,791,508	1,793,326
Less:		
Accumulated Depreciation		
Road	**122,499**	122,598
Equipment	**335,538**	329,997
Miscellaneous	**12,550**	12,849
Excess of Net Assets (at acquisition) of Consolidated Subsidiaries over carrying value of investments	**52,062**	49,365
	1,268,859	1,278,517
Other Assets and Deferred Charges:		
Investment in Santa Fe Industries, Inc. 6¼% Convertible Subordinated Debentures, at cost which approximates market		9,098
Investment in Terminal and Other Companies	**40,272**	39,671
Capital, Insurance and Other Funds (Note 6)	**16,561**	10,747
Other	**7,796**	8,422
	64,629	67,938
	$1,537,994	$1,500,601

eet (In Thousands of Dollars)

Liabilities	**Dec. 31, 1973**	**Dec. 31, 1972**
Current Liabilities:		
Accounts and Wages Payable	$ 89,735	$ 74,006
Payable in Connection with Recapitalization (Note 2)	33,771	
Current Maturities of Long Term Debt	29,414	28,599
Bank Loan (Note 2)	3,000	
Unmatured Interest Accrued	13,907	13,625
Interest and Dividends Payable	8,571	8,148
Federal Income Taxes Accrued	4,210	1,774
Other Taxes Accrued	11,645	9,721
Other Current Liabilities	12,670	17,902
	206,923	153,775
Long Term Debt (Page 17)	704,282	713,630
Other Liabilities and Deferred Credits: (Notes 3 and 6)		
Accumulated Deferred Federal Income Taxes	173,800	166,600
Casualty Reserves and Other Liabilities	35,905	25,712
	209,705	192,312
Equity of Minority Stockholders in Consolidated Subsidiaries	21,023	31,905
Stockholders' Equity: (Notes 2, 3 and 9)		
Class A Capital Stock — No Par Value; Authorized 3,000,000 shares; outstanding 1,864,352 shares (excluding 17,600 shares held by Company)		186,435
Class B Capital Stock — No Par Value; Authorized 1,000,000 shares; outstanding 39,731 shares		3,973
$5 Cumulative Convertible Preferred Stock, convertible after December 14, 1974 — No Par Value; Authorized 2,000,000 shares; outstanding 1,865,702 shares	186,570	
Common Stock — No Par Value; Authorized 3,000,000 shares; outstanding 635,696 shares	3,973	
Capital Surplus	1,451	1,505
Retained Income (Page 17)	204,067	217,066
	396,061	408,979
Commitments and Contingent Liabilities (Notes 7 and 8)		
	$1,537,994	$1,500,601

See Notes to Consolidated Financial Statements, Pages 19-24.

Statement of Consolidated Income
(In Thousands of Dollars)

	Year Ended December 31 1973	1972
Operating Revenues:		
Freight	$722,396	$618,275
Switching and Other	31,186	24,644
Total Operating Revenues	753,582	642,919
Operating Expenses: (Notes 1 and 5)		
Maintenance of Way and Structures	100,669	99,024
Maintenance of Equipment	131,873	119,302
Traffic	17,028	16,430
Transportation	305,963	246,117
General and Miscellaneous	28,763	27,411
Total Operating Expenses	584,296	508,284
Net Revenue from Operations	169,286	134,635
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	51,151	42,712
Equipment and Joint Facility Rents	46,288	28,025
Total Other Operating Charges	97,439	70,737
Net Operating Income (Before Federal Income Taxes)	71,847	63,898
Other Income (Net):		
Gain on Reacquisition of Long Term Debt	4,893	1,206
Other, Net	11,177	4,473
Total Other Income	16,070	5,679
Income Available for Fixed Charges (Before Federal Income Taxes)	87,917	69,577
Interest:		
Fixed	28,545	26,830
Contingent	10,055	10,277
Total Interest	38,600	37,107
Income Before Federal Income Taxes and Minority Interests	49,317	32,470
Provision for Federal Income Taxes: (Note 4)		
Current	6,433	2,681
Deferred	10,043	11,426
Total Federal Income Taxes	16,476	14,107
Income Before Minority Interests	32,841	18,363
Less — Income Applicable to Minority Interests	1,946	1,733
Net Income (In Conformity with Generally Accepted Accounting Principles — Note 3)	$ 30,895	$ 16,630
Pro Forma Earnings per Common and Common Equivalent Share (Note 1)	$ 11.51	$ 6.11
Depreciation and Retirement Charges Included Above (Note 1)	$ 41,577	$ 41,818

See Notes to Consolidated Financial Statements, Pages 19-24.

Missouri Pacific System

Statement of Consolidated Retained Income

(In Thousands of Dollars)

	Year Ended December 31 1973	1972
Balance at Beginning of Year:		
As Previously Reported on the Basis of Interstate Commerce Commission Accounting Principles	**$349,192**	$331,605
Reduction for Cumulative Effects of Deferred Federal Income Tax Provisions (Note 3)	**132,126**	121,650
As Restated on the Basis of Generally Accepted Accounting Principles	**217,066**	209,955
Add — Net Income	**30,895**	16,630
	247,961	226,585
Deduct —		
Cash Dividends —		
Class A Stock — $5 Per Share	**9,328**	9,320
Class B Stock — $20 Per Share in 1973 and $5 Per Share in 1972	**795**	199
$850 Cash Per Share of Class B Stock in Connection with the Recapitalization (Note 2)	**33,771**	
Balance at End of Year (Notes 2, 3 and 9)	**$204,067**	$217,066

See Notes to Consolidated Financial Statements, Pages 19-24.

Long Term Debt (Including Maturities in 1974)

(In Thousands of Dollars)

	Interest Rate	Date of Maturity	Changes 1973		Outstanding December 31, 1973 (excluding amounts held by Company)
			Issued	Reduction	
Missouri Pacific Railroad Company					
First Mortgage Bonds (1)	4¼%	1990 & 2005		$ 1,891	$245,582
General Mortgage Bonds (1)	4¾% (2)	2020 & 2030		4,653	104,604
Income Debentures	5% (2)	2045			100,016
Equipment Obligations	4% to 9%	1974 to 1987		13,539	106,879
Bank Loan	9¾% (Prime)	1974 to 1978	$15,000		15,000
Texas and Pacific Railway Company					
First Mortgage Bonds	5%	2000			18,961
Second Mortgage Bonds	5%	2000		4	4
General & Refunding Mortgage Bonds (1)	3⅞%	1985		7,692	6,942
First Mortgage Bonds (KO&G) (1)	3⅝%	1980		799	1,469
Equipment Obligations	4⅛% to 9¾%	1974 to 1988	8,805	7,134	69,007
Chicago & Eastern Illinois Railroad Company					
Income Debentures (1)	5% (2)	2054		17	1,704
Equipment Obligations	5% to 10¼%	1974 to 1983	19,240	2,818	30,917
Other Majority-Owned Subsidiaries	4½% to 9¾%	1974 to 1985	2,472	12,503 (3)	35,611
Grand Total			$45,517	$51,050	$736,696

Long Term Debt Maturing During Each of the Next Five Years	1974	1975	1976	1977	1978
	$32,414	$31,580	$30,717	$29,071	$28,240

(1) Have annual sinking fund requirements.

(2) Contingent interest.

(3) Includes $5,930 of equipment obligations transferred in connection with corporate separation.

Substantially all of the properties of the Missouri Pacific System are covered by liens of either the Missouri Pacific Railroad or The Texas and Pacific Railway first mortgages or under the companies' equipment obligations.

Consolidated Statement of Changes in Financial Position

(In Thousands of Dollars)

	Year Ended December 31 1973	1972
Financial Resources Were Provided By:		
Net Income	$ 30,895	$ 16,630
Add — Charges (Credits) Against Income Not Requiring Working Capital —		
Depreciation and Retirements	41,577	41,818
Increase in Long Term Casualty and Other Reserves	12,350	2,831
Deferred Federal Income Taxes	11,621	13,806
Income Applicable to Minority Interests	1,946	1,733
Gain on Reacquisition of Long Term Debt	(4,893)	(1,206)
Other, Net	144	1,070
Working Capital Provided from Operations	93,640	76,682
Equipment Assumed by Minority Interest in Connection with Corporate Separation of Subsidiary	15,738	
Salvage from Property Sold or Retired	7,543	6,532
Proceeds from Sale of Investments in Securities of Santa Fe Industries, Inc.	8,618	5,420
Proceeds from Equipment Obligations Issued	30,517	57,065
Proceeds from Long Term Bank Loan	15,000	
	171,056	145,699
Financial Resources Were Used For:		
Property Additions	59,388	100,279
Reduction of Long Term Equipment Obligations (Excluding Reduction Due to Corporate Separation of Subsidiary)	31,690	30,409
Repayment of Long Term Debt	10,349	1,924
Reduction of Long Term Bank Loan	3,000	
Payable in Connection With Recapitalization	33,771	
Distributed to Minority Interest in Connection with Corporate Separation:		
Equity of Minority Stockholder	6,825	
Long Term Equipment Obligations	4,887	
Accumulated Deferred Federal Income Taxes	4,179	
Dividends (Including Amounts Paid Minority Interests)	10,448	9,641
Purchase of Securities	3,085	2,171
Insurance Deposit Increase	428	5,191
Capital Fund Deposit Increase	4,773	4,032
Other, Net	1,021	2,998
	173,844	156,645
Increase (Decrease) in Working Capital	$ (2,788)	$ (10,946)
Analysis of Changes in Working Capital:		
Cash and Temporary Cash Investments	$ 51,490	$ (10,942)
Accounts Receivable	10,095	668
Material and Supplies	(189)	2,931
Accumulated Deferred Federal Income Tax Benefits	1,900	1,300
Other Current Assets	(12,936)	8,188
Accounts and Wages Payable	(15,729)	621
Payable in Connection With Recapitalization	(33,771)	
Current Maturities of Long Term Debt	(815)	(2,400)
Bank Loan	(3,000)	
Federal Income Taxes Accrued	(2,436)	2,187
Other Current Liabilities	2,603	(13,499)
Increase (Decrease) in Working Capital	$ (2,788)	$ (10,946)

See Notes to Consolidated Financial Statements, Pages 19-24.

Missouri Pacific System

Notes to Consolidated Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of financial statement preparation and consolidation — The accompanying consolidated financial statements of the Missouri Pacific System include the accounts of the Missouri Pacific Railroad Company and its majority-owned subsidiaries, principally the Texas and Pacific System (96.7% owned) and the Chicago & Eastern Illinois System (75.0% owned).

Investments in less than majority-owned terminal railroad companies (joint ventures) and other affiliated companies, where the Company has the ability to exercise significant influence over their operating and financial policies, are accounted for under the equity method.

The Company and its railroad subsidiaries maintain their books of account in conformity with

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Report of Independent Accountants

Price
Waterhouse & Co.
ONE MEMORIAL DRIVE, ST. LOUIS, MISSOURI 63102

February 15, 1974

To the Stockholders and Board of Directors of
MISSOURI PACIFIC RAILROAD COMPANY

We have examined the consolidated balance sheets of the Missouri Pacific Railroad Company and its subsidiaries as of December 31, 1973 and 1972 and the related statements of consolidated income, retained income, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Because of the characteristics of the company's two classes of stock outstanding during 1973 and 1972, as described in Note 2 to the consolidated financial statements, earnings per share data based thereon have been omitted from the accompanying consolidated financial statements. However, pro forma earnings per share data based on the January, 1974 recapitalization are presented on the basis described in Note 1.

As explained in Note 3 to the consolidated financial statements, the company has retroactively changed its method of preparing the accompanying financial statements from a basis in conformity with Interstate Commerce Commission accounting principles to a basis in conformity with generally accepted accounting principles by providing for deferred federal income taxes.

In our opinion, the accompanying consolidated financial statements examined by us present fairly the financial position of the Missouri Pacific Railroad Company and its subsidiaries at December 31, 1973 and 1972 and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, referred to in the preceding paragraph.

Price Waterhouse & Co.

principles and methods of accounting prescribed or authorized by the Interstate Commerce Commission. These principles and methods do not require provisions for deferred federal income taxes (see federal income tax policy). As a result of the change described in Note 3, the accompanying consolidated financial statements are presented in conformity with generally accepted accounting principles and include provisions for deferred federal income taxes.

Per share data — Earnings per common and common equivalent share are presented on a pro forma basis assuming that (1) the January, 1974 recapitalization described in Note 2 had been effected on January 1, 1972, (2) to finance the $850 per share payment to the holders of Class B stock, the Company had borrowed on that date $33,771,000 which remained outstanding through 1972 and 1973 with interest accruing at the prevailing prime rate, or $1,347,000 and $2,097,000 after tax benefits of $426,000 and $662,000, respectively, (3) the Preferred stock issued is regarded as a common stock equivalent on a one-for-one basis, and (4) the weighted average number of common shares and common share equivalents outstanding during 1972 and 1973 were 2,499,771 and 2,501,198, respectively.

Federal income taxes — The accompanying financial statements include provisions for current and deferred federal income taxes. Current federal income taxes have been reduced by the benefits of tax deductions for accelerated depreciation and amortization of properties in advance of such deductions for financial statement purposes. These benefits have been partially offset by the effects of financial statement expense accruals for casualties and other matters which are not deducted for income tax purposes until paid. The net current benefit of these timing differences has been offset by a provision for deferred federal income taxes.

Investment tax credit is accounted for under the flow-through method.

Properties — Properties are stated at estimated original cost, primarily determined as of January 1, 1955 by Interstate Commerce Commission valuations, plus additions and betterments at cost and less retirements since the dates of valuations.

The companies follow the straight-line method of depreciation using various group rates prescribed by the Interstate Commerce Commission. Depreciation provisions during 1973 and 1972 were at rates of approximately 3.6% for equipment and 2.0% for depreciable road properties. However, for rails, ties and other track materials, instead of depreciation accounting, the companies follow an acceptable alternate practice of "replacement" accounting. Under this method, replacements in kind are charged to expense while additions and betterments (improvements) are capitalized. The amounts capitalized are not depreciated and are charged against income only when the related properties are retired. Normal retirements of depreciable property are charged to the appropriate depreciation reserve at cost less salvage. At December 31, 1973 and 1972 consolidated nondepreciable properties, including land and land rights, were approximately $549,000,000 and $545,000,000, respectively.

Excess of net assets (at acquisition) of consolidated subsidiaries over carrying value of investments is not being amortized.

Pensions — The companies have an unfunded, noncontributory pension plan for executives, officials and certain key employees. Related charges to operating expense represent accruals which include normal cost and amortization of prior service cost over a 35-year period beginning January 1, 1966, plus interest on the recorded unfunded pension liability.

Casualty losses — Casualty losses are accrued and charged to income as they are incurred except for major casualties covered by the self-insurance reserve described in Note 6.

Debt and related expense — Discount and expense applicable to long term debt is deferred and amortized over the lives of the respective issues using the bonds outstanding method. Gain on reacquisition of bonds is recorded as income.

NOTE 2 — STOCKHOLDERS' EQUITY:

See page 4 for details concerning the Company's recapitalization of its equity structure on January 21, 1974 and description of the new Cumulative Preferred Stock and Common Stock. The accompanying consolidated balance sheet as of December 31, 1973 gives effect to the recapitalization.

Prior to the recapitalization, the Company had outstanding 1,905,433 shares of capital stock divided into two classes. Of this total 97.9% or 1,865,702 shares were Class A stock and 2.1% or 39,731 shares were Class B stock. These shares were without par value, but each had a stated value of $100 per share. Holders of Class A and Class B stock had full voting rights equal to one vote to each share held, but the Class A and Class B shares were entitled to vote separately as a class upon certain matters, including the issuance of additional shares and modifications of present shares.

Dividends on the Class A stock were noncumulative and could not exceed $5 per share in any given calendar year. After dividends of $5 per share had been paid on the Class A stock in any year, dividends could be paid on the Class B stock in such amounts as the Board of Directors declared. Dividends on both classes of stock were subject to the setting aside of such reserves and making such other provisions as the Board deemed necessary or advisable for working capital or expansion of the business of the Company, including the acquisition of property, or for other corporate purposes. Undistributed earnings of prior years could be used to pay cash dividends in succeeding years on either class of stock.

In the event of liquidation of the Company the holders of Class A stock would have been entitled to receive, out of the assets, the maximum of $100 per share before any distribution could have been made to the holders of the Class B stock. Thereafter, the holders of the Class B stock would have been entitled to receive any further distributions out of the assets of the Company without participation by the Class A holders. Neither the Class A nor Class B stock was convertible into the other class and neither was subject to redemption.

The provisions of the mortgages and indenture relative to priority of call in each year upon "Available Net Income" (as defined therein) have been satisfied and no restriction under the mortgages and indenture exists on the parent company's retained income at December 31, 1973. However, the agreement under which the Company borrowed $15,000,000 from a bank to partially finance the payment to Class B stockholders (see page 4) restricts the payment of dividends by the Company and the purchase, redemption or other retirement of any shares of capital stock of any class of the Company, by either the Company or its consolidated subsidiaries. As of December 31, 1973, $23,583,000 of consolidated retained income is not subject to these restrictions. The terms of this agreement allow the Company to borrow an additional $15,000,000 until June 30, 1974 at which time, and semiannually thereafter, the Company will be required to repay the bank an amount equal to one-tenth of the then outstanding principal. Interest on outstanding borrowings through December 31, 1975 will be at the bank's prime rate and thereafter at 105% of the bank's prime rate.

NOTE 3 — CHANGE IN ACCOUNTING:

In order to present the accompanying consolidated financial statements in conformity with generally accepted accounting principles, the Company has retroactively changed its method of preparing them by providing for the full amount of deferred federal income taxes. Accordingly, consolidated retained income as of January 1, 1972 was decreased by $121,650,000 from the amount previously reported on the basis of Interstate Commerce Commission accounting principles and net income for 1973 and 1972 was decreased from amounts determined on this basis, as follows:

	Year ended December 31	
	1973	1972
Net income in conformity with I.C.C. accounting principles	$39,926,000	$27,106,000
Reduction for effect of deferred federal income tax provisions not booked less minority interests of $590,000 and $430,000	9,031,000	10,476,000
Net income in conformity with generally accepted accounting principles	$30,895,000	$16,630,000

The condensed consolidated balance sheets shown below are presented on the basis of Interstate Commerce Commission accounting principles and, therefore, exclude the cumulative effects of deferred federal income tax provisions.

	December 31	
	1973	1972
ASSETS	(In thousands of dollars)	
Current assets	$ 191,506	$ 143,046
Properties, net	1,257,910	1,268,255
Other assets and deferred charges	65,236	68,384
	$1,514,652	$1,479,685
LIABILITIES		
Current liabilities (exclusive of long term debt due within one year)	$ 146,438	$ 130,776
Long term debt — due within one year	32,414	28,599
Long term debt	704,282	713,630
Other liabilities and deferred credits	35,905	25,712
Equity of minority stockholders in consolidated subsidiaries	24,624	39,863
Capital stock and capital surplus	191,994	191,913
Retained income	378,995	349,192
	$1,514,652	$1,479,685

NOTE 4 — FEDERAL INCOME TAXES:

As described in Note 1, provisions for deferred federal income taxes result from timing differences in the recognition of revenue and expense for tax and for financial statement purposes. The sources of these differences and the tax effect of each are as follows:

	Year ended December 31	
SOURCE	1973	1972
Excess of tax over book depreciation and amortization	$17,400,000	$14,148,000
Reduction of property base for gain on reacquisition of bonds	2,345,000	577,000
Financial statement expense accruals for casualties and other matters which are not deductible for tax purposes until paid	(7,918,000)	(2,561,000)
Other	(1,784,000)	(738,000)
Provision for deferred federal income taxes	$10,043,000	$11,426,000

Total tax expense amounted to $16,476,000 for 1973 and $14,107,000 for 1972, an effective tax rate of 33.4% and 43.4%, respectively. The difference between the effective rates and the federal income tax rate of 48% results primarily from investment tax credit, which has been applied under the flow-through method, as shown below:

	Year ended December 31			
	1973		1972	
	Amount	% of pre-tax income	Amount	% of pre-tax income
Tax expense computed at federal income tax rate	$23,672,000	48.0	$15,586,000	48.0
Reduction in taxes resulting from investment tax credit	(5,200,000)	(10.5)	(1,200,000)	(3.7)
Other	(1,996,000)	(4.1)	(279,000)	(.9)
Actual tax expense	$16,476,000	33.4	$14,107,000	43.4

At December 31, 1973, investment tax credit carryovers of approximately $22,700,000 are available to offset future years' federal income taxes otherwise payable. Of the $22,700,000 carryover, $1,900,000 will expire in 1975, $3,500,000 in 1976, $1,900,000 in 1977, $4,600,000 in 1978, $4,800,000 in 1979 and $6,000,000 in 1980, if not used.

NOTE 5 — RETIREMENT PLAN:

Pension expense as described in Note 1 resulted in charges to operating expense in 1973 and 1972 of approximately $3,401,000 and $3,332,000, respectively.

The actuarially computed value of benefits pertaining to retired employees exceeds the recorded pension plan liability by approximately $12,000,000 and $19,200,000 at December 31, 1973 and 1972, respectively. The change results principally from an increase in the actuarially assumed interest rate from 4% to 6% during 1973.

NOTE 6 — CASUALTY RESERVES:

Effective February 1, 1972, the Company and its majority-owned subsidiaries, except for the Chicago & Eastern Illinois System, increased their insurance deductible from $1,500,000 to $5,000,000 with respect to casualty losses resulting from destroyed freight cars, freight loss and damage, personal injury and third party liability. As a result, a self-insurance reserve was established on the Company's books in 1972 to account for any such loss to the extent that it exceeds $1,500,000 and is less than $5,000,000. Estimated premium savings from increasing the deductible are added to the reserve and applicable losses are charged to it. If the reserve balance totals $5,000,000 (the maximum self-insured loss expected to occur in any one year) no additional charges are to be made against income unless the reserve declines below the maximum amount. The reserve balance was $1,782,000 and $735,000 at December 31, 1973 and 1972, respectively. At December 31, 1973 the Company had also set aside $5,600,000 in capital, insurance and other funds to be used in the event of self-insured losses.

NOTE 7 — LEASED ASSETS AND LEASE COMMITMENTS:

Total rental expense charged to operations in 1973 and 1972 was approximately $50,399,000 and $31,374,000, respectively. Included in total rental expenses are payments under short term arrangements, primarily net hire of freight cars, amounting to $44,225,000 in 1973 and $27,057,000 in 1972. The remaining rental expense of $6,174,000 in 1973 and $4,317,000 in 1972 is for long term leases on a general office building and transportation equipment.

As of December 31, 1973 rental commitments under long term leases were as follows:

Periods to which commitments relate	Rental Commitments Pertaining To: Transportation Equipment	Office Building
1974	$ 6,613,000	$ 460,000
1975	6,335,000	460,000
1976	5,967,000	460,000
1977	5,892,000	460,000
1978	5,947,000	460,000
1979 through 1983	27,989,000	2,300,000
1984 through 1988	18,106,000	2,300,000
1989 through 1993	743,000	1,188,000
Total	$77,592,000	$8,088,000

The Company's leases on transportation equipment provide options to purchase the equipment at fair market value at the expiration of the leases. The lease on the general office building provides an option to renew the lease for four terms of five years each beginning in 1991 and an option to purchase the building for $6,000,000 through 2011.

NOTE 8 — CONTINGENT LIABILITIES:

The Company and its railroad subsidiaries are contingently liable as guarantors, together with other owner railroads, for principal and interest of certain obligations of various affiliated companies aggregating approximately $116,000,000 at December 31, 1973. Under terms of a service interruption policy, the Company and its railroad subsidiaries are contingently liable for additional premiums up to a maximum of $16,500,000 in the event of work stoppages on other participating roads.

NOTE 9 — LEGAL PROCEEDINGS, SETTLEMENT AGREEMENT AND RECAPITALIZATION:

See page 4 for details concerning the dismissal of the lawsuit by former Class B stockholders for additional dividends, the consummation of the related Settlement Agreement and the recapitalization effected on January 21, 1974.

Computation and Application of Available Net Income

Income of Missouri Pacific Railroad Company and its Wholly-Owned Railway Companies
(computed on an I.C.C. basis as required by the Company's Mortgages and Indenture)
(In Thousands of Dollars)

	1973	1972
Income Before Fixed Charges and After Federal Income Taxes	**$54,438**	$45,476
Income (Loss) of Wholly-Owned Railway Companies	**544**	(67)
Road Property Retired and Charged to Operating Expenses	**439**	2,561
	55,421	47,970
Less — Dividends of 100% Railway Companies Included in Missouri Pacific Income	**200**	
Total Income Available for Fixed Charges	**55,221**	47,970
Fixed Charges	**18,963**	18,499
Available Net Income	**36,258**	29,471
Capital Expenditures Fund	**8,688**	7,243
Remaining Income	**27,570**	22,228
First Mortgage Sinking Fund	**771**	771
Remaining Income	**26,799**	21,457
Interest on General Mortgage Bonds, Series A	**2,547**	2,692
Remaining Income	**24,252**	18,765
Sinking Fund on General Mortgage Bonds, Series A	**350**	350
Remaining Income	**23,902**	18,415
Interest on General Mortgage Bonds, Series B	**2,422**	2,497
Remaining Income	**21,480**	15,918
Sinking Fund on General Mortgage Bonds, Series B	**338**	338
Remaining Income	**21,142**	15,580
Interest on Income Debentures	**5,001**	5,001
Balance	**$16,141**	$10,579

Missouri Pacific System

Condensed Statement of Consolidated Income For The Five Years Ended December 31, 1973

(In Thousands of Dollars)

	1973	1972	1971	1970	1969
Operating Revenues	**$753,582**	$642,919	$602,620	$534,128	$495,258
Operating Expenses	**584,296**	508,284	467,809	416,806	387,101
Net Revenue from Operations	**169,286**	134,635	134,811	117,322	108,157
Other Operating Charges	**97,439**	70,737	74,267	67,417	59,186
Other Income (Net)	**16,070**	5,679	5,792	8,977	10,170
Interest Expense	**38,600**	37,107	35,476	35,535	34,571
Income Before Federal Income Taxes, Minority Interests and Extraordinary Items	**49,317**	32,470	30,860	23,347	24,570
Provision for Federal Income Taxes:					
Current	**6,433**	2,681	3,272	928	1,986
Deferred	**10,043**	11,426	8,293	10,150	7,858
Less — Income Applicable to Minority Interests	**1,946**	1,733	1,185	507	59
Net Income Before Extraordinary Items	**30,895**	16,630	18,110	11,762	14,667
Extraordinary Items, Less Taxes and Minority Interests			(6,116)		
Net Income (Including Extraordinary Items) (In Conformity with Generally Accepted Accounting Principles)	**$ 30,895**	$ 16,630	$11,994	$ 11,762	$ 14,667

Supplementary Income Information

	1973	1972	1971	1970	1969
Net Income Before Extraordinary Items as Above	**$ 30,895**	$ 16,630	$ 18,110	$ 11,762	$ 14,667
Adjustments to I.C.C. Accounting Principles:					
Add or (Deduct) —					
Deferred Federal Income Taxes Not Booked	**9,621**	10,906	8,227	10,525	7,158
Portion of Deferred Federal Income Taxes Applicable to Minority Interests	**(590)**	(430)	(573)	(437)	71
Net Income Before Extraordinary Items	**39,926**	27,106	25,764	21,850	21,896
Extraordinary Items:					
Extraordinary Items as Above			(6,116)		
Deferred Federal Income Taxes			(1,562)		
Net Income (Including Extraordinary Items) (As It Would Be Stated in Conformity with I.C.C. Accounting Principles)	**$ 39,926**	$ 27,106	$ 18,086	$ 21,850	$ 21,896

Depreciation and Retirement Charges Included Above	**$ 41,577**	$ 41,818	$ 40,219	$ 37,958	$ 36,349

Missouri Pacific Railroad Company

Statement of Income (Corporate)

(In Thousands of Dollars)

	Year Ended December 31	
	1973	**1972**
Operating Revenues:		
Freight	**$510,045**	$434,617
Switching and Other	**21,990**	16,464
Total Operating Revenues	**532,035**	451,081
Operating Expenses:		
Maintenance of Way and Structures	**71,002**	71,671
Maintenance of Equipment	**85,860**	77,624
Traffic	**10,867**	10,281
Transportation	**206,162**	164,708
General and Miscellaneous	**20,379**	19,513
Total Operating Expenses	**394,270**	343,797
Net Revenue from Operations	**137,765**	107,284
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	**35,292**	29,434
Equipment and Joint Facility Rents	**59,608**	39,449
Total Other Operating Charges	**94,900**	68,883
Net Operating Income (Before Federal Income Taxes)	**42,865**	38,401
Other Income (Net):		
Intercompany Dividends (Eliminated in Consolidation)	**5,447**	4,225
Gain on Reacquisition of Long Term Debt	**3,113**	1,070
Other, Net	**5,440**	1,499
Total Other Income	**14,000**	6,794
Income Available For Fixed Charges (Before Federal Income Taxes)	**56,865**	45,195
Interest:		
Fixed	**18,963**	18,499
Contingent	**9,969**	10,190
Total Interest	**28,932**	28,689
Income Before Federal Income Taxes	**27,933**	16,506
Provision for Federal Income Taxes:		
Current	**2,427**	Cr 630
Deferred	**3,967**	6,200
Total Federal Income Taxes	**6,394**	5,570
Net Income (In Conformity with Generally Accepted Accounting Principles)	**$ 21,539**	$ 10,936

Supplementary Income Information

Net Income as Above	**$ 21,539**	$ 10,936
Adjustments to I.C.C. Accounting Principles — Deferred Federal Income Taxes Not Booked	**3,967**	5,850
Net Income (As It Would Be Stated in Conformity with I.C.C. Accounting Principles)	**$ 25,506**	$ 16,786
Depreciation and Retirement Charges Included Above	**$ 23,003**	$ 24,376

Texas and Pacific System

(Owned 96.7% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

	Year Ended December 31	
	1973	**1972**
Operating Revenues:		
Freight	**$137,463**	$116,593
Switching and Other	**4,381**	4,034
Total Operating Revenues	**141,844**	120,627
Operating Expenses:		
Maintenance of Way and Structures	**19,202**	17,131
Maintenance of Equipment	**25,415**	22,523
Traffic	**4,401**	4,272
Transportation	**64,663**	51,473
General and Miscellaneous	**5,029**	4,794
Total Operating Expenses	**118,710**	100,193
Net Revenue from Operations	**23,134**	20,434
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	**9,182**	7,473
Equipment and Joint Facility Rents	**1,902**	1,508
Total Other Operating Charges	**11,084**	8,981
Net Operating Income (Before Federal Income Taxes)	**12,050**	11,453
Other Income (Net):		
Gain on Reacquisition of Long Term Debt	**1,772**	123
Other, Net	**3,737**	2,009
Total Other Income	**5,509**	2,132
Income Available For Fixed Charges (Before Federal Income Taxes)	**17,559**	13,585
Fixed Interest	**5,423**	5,575
Income Before Federal Income Taxes and Minority Interest	**12,136**	8,010
Provision for Federal Income Taxes:		
Current	**1,399**	187
Deferred	**2,741**	3,257
Total Federal Income Taxes	**4,140**	3,444
Income Before Minority Interest	**7,996**	4,566
Add — Loss Applicable to Minority Interest	**6**	1
Net Income (In Conformity with Generally Accepted Accounting Principles)	**$ 8,002**	$ 4,567

Supplementary Income Information

	1973	1972
Net Income as Above	**$ 8,002**	$ 4,567
Adjustments to I.C.C. Accounting Principles — Deferred Federal Income Taxes Not Booked	**2,741**	3,457
Net Income (As It Would Be Stated in Conformity with I.C.C. Accounting Principles)	**$ 10,743**	$ 8,024
Depreciation and Retirement Charges Included Above	**$ 9,026**	$ 8,502

Chicago & Eastern Illinois System

(Owned 75.0% By Missouri Pacific Railroad Company)

Statement of Consolidated Income

(In Thousands of Dollars)

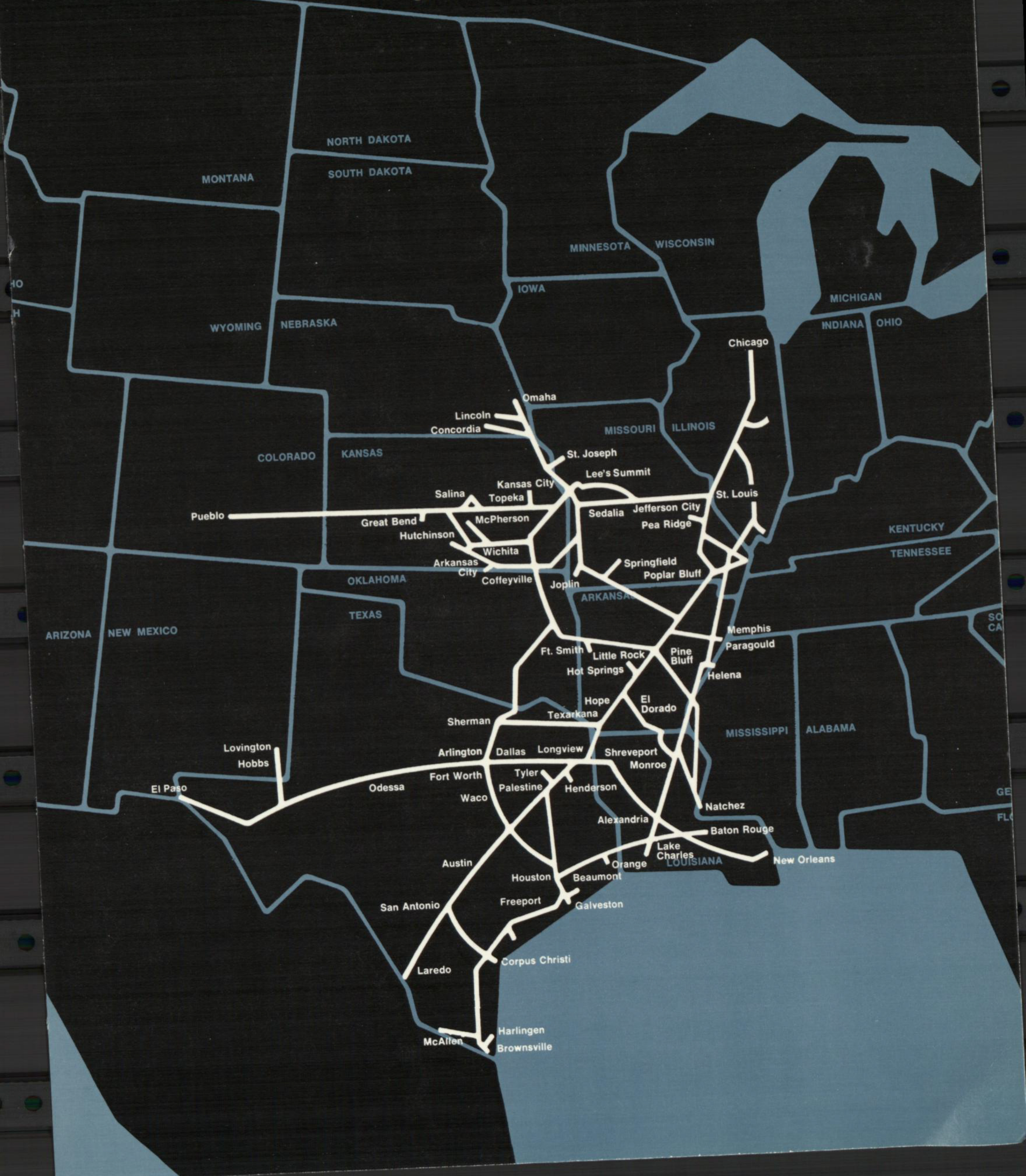
	Year Ended December 31	
	1973	**1972**
Operating Revenues:		
Freight	**$ 43,687**	$ 38,968
Switching and Other	**3,455**	3,023
Total Operating Revenues	**47,142**	41,991
Operating Expenses:		
Maintenance of Way and Structures	**8,236**	7,710
Maintenance of Equipment	**7,973**	7,325
Traffic	**1,114**	1,255
Transportation	**15,315**	12,733
General and Miscellaneous	**2,007**	1,879
Total Operating Expenses	**34,645**	30,902
Net Revenue from Operations	**12,497**	11,089
Other Operating Charges:		
Taxes (Except Federal Income Taxes)	**3,204**	2,712
Equipment and Joint Facility Rents	**461**	2,585
Total Other Operating Charges	**3,665**	5,297
Net Operating Income (Before Federal Income Taxes)	**8,832**	5,792
Other Income (Net)	**469**	67
Income Available For Fixed Charges (Before Federal Income Taxes)	**9,301**	5,859
Interest:		
Fixed	**1,852**	862
Contingent	**85**	86
Total Interest	**1,937**	948
Income Before Federal Income Taxes	**7,364**	4,911
Provision for Federal Income Taxes:		
Current	**947**	970
Deferred	**1,640**	414
Total Federal Income Taxes	**2,587**	1,384
Net Income (In Conformity with Generally Accepted Accounting Principles)	**$ 4,777**	$ 3,527

Supplementary Income Information

Net Income as Above	**$ 4,777**	$ 3,527
Adjustments to I.C.C. Accounting Principles — Deferred Federal Income Taxes Not Booked	**1,240**	164
Net Income (As It Would Be Stated in Conformity with I.C.C. Accounting Principles)	**$ 6,017**	$ 3,691

Depreciation and Retirement Charges Included Above	**$ 2,909**	$ 2,256

mo-pac system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